FDIC State Profile

Fall 2005

Illinois

Relatively slow and uneven job growth centered in service-providing sectors.

- Illinois ranked 45th in the nation with year-over-year job growth in second quarter 2005 of 0.6 percent, compared with 1.6 percent for all states.

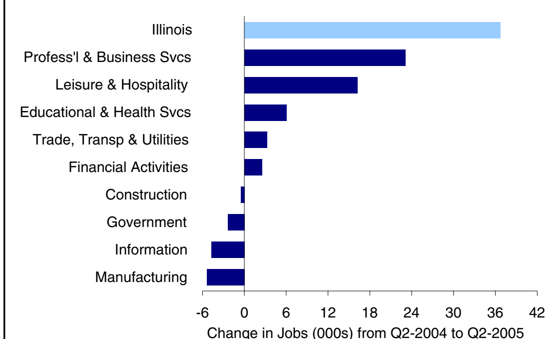
- The **Danville** metropolitan area posted its first quarter of job gains since third quarter 2000. Conversely, the **Davenport-Moline-Rock Island** metropolitan area lost jobs for the first time since fourth quarter 2003. **Bloomington-Normal** experienced its 11th straight quarter of job losses, and **Kankakee-Bradley** and **Champaign-Urbana** were the only other metropolitan areas to show continued job losses.

- The professional and business services, and leisure and hospitality sectors accounted for the majority of job growth in second quarter 2005, mostly in the **Chicago-Naperville-Joliet** metropolitan division (see Chart 1).

- The state's manufacturing sector lost 5,400 jobs over the past year, largely in the nondurable goods sector within the Chicago-Naperville-Joliet metropolitan division. However, job growth in the manufacturing sector has been a mixed bag as several metro areas in central Illinois have experienced net positive job growth, primarily from robust demand for industrial machinery. Metropolitan areas in central Illinois that experienced growth in the manufacturing sector include **Peoria, Decatur,** Danville**,** and **Springfield,** with growth rates of 5.2 percent, 3.8 percent, 3.4 percent, and 1.9 percent, respectively. Nevertheless, continued weakness among auto manufacturers may dampen job growth prospects in the auto and auto parts sectors.

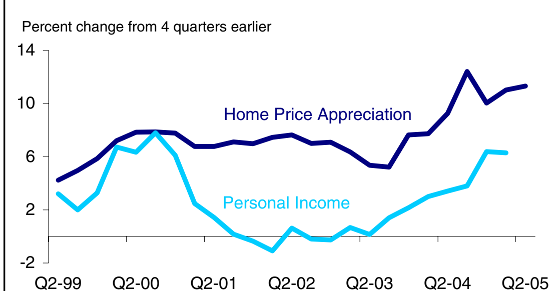
- Illinois consumers quickly felt the effects of the recent Gulf Coast hurricanes as higher gas prices took a larger share of their paychecks. Should energy prices remain elevated, some energy-dependent manufacturers (especially auto producers and suppliers) may see profit margins squeezed; farmers may see higher harvest and shipping costs; and, ultimately, consumers may alter their spending and travel habits. Still, other industries

Chart 1: Job Gains Vary Across Sectors



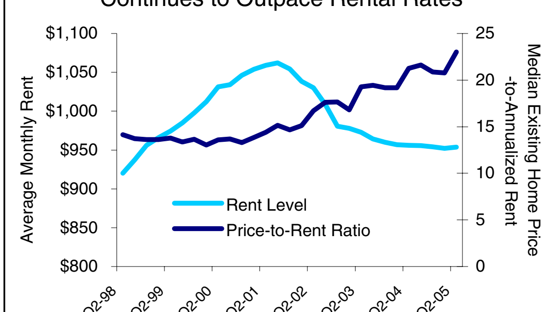
Source: Bureau of Labor Statistics

Chart 2: Chicago's Home Price Appreciation Outpaces Personal Income Growth



Source: Office of Federal Housing Enterprise Oversight / Bureau of Economic Analysis

Chart 3: Chicago Home Price Appreciation Continues to Outpace Rental Rates



Source: National Association of Realtors, Property and Portfolio Research associated with building materials and construction likely will see demand for their products increase as rebuilding efforts commence in the affected areas.

Chicago home prices are rising faster than personal income and rents.

- Home prices of single-family homes in the Chicago-Naperville-Joliet metropolitan division increased 11.3 percent in the year-ending second quarter 2005, below the national average of 13.4 percent. Despite this relatively low appreciation rate, home price appreciation for the Chicago-Naperville-Joliet metropolitan area continues to outpace personal income growth, a situation that suggests declining affordability for some consumers in this area (see Chart 2).

- Median home prices in the Chicago-Naperville-Joliet metropolitan area appear high when compared to rent levels (see Chart 3). Furthermore, the difference between rent levels and the price-to-rent ratio is highest since the data first became available in fourth quarter 1985. Consequently, it has become increasingly more difficult for residential real estate investors to charge rents high enough to cover monthly property expenses.

- Residential housing activity in Illinois remained strong. From second quarter 2004 to second quarter 2005, permits for new, privately owned housing units increased 14.8 percent, and total unit sales of existing homes were up 1.8 percent.

Apartment and office market conditions improve slightly.

- Apartment vacancy rates remained relatively stable for the Chicago metropolitan area over the past year and are still below national apartment vacancy rates. Positive net absorptions and declining rents continue to help keep vacancy rates low.

- Office vacancy rates for the Chicago metropolitan area increased slightly over the past year and remain slightly high when compared to national vacancy rates. Relatively slow job growth and a steady supply of new construction continues to contribute to the increase in office vacancy rates.

Illinois community institutions[1] reported stable performance.

- Profitability among Illinois-based community institutions improved in second quarter 2005 from one year ago, primarily because of higher net interest income and lower provision expense (see Table 1).

- Net interest margins (NIMs) continued to improve from a year earlier, as asset yields rose faster than funding costs. However, bank funding costs are poised to increase more rapidly than asset yields through 2005 should the yield curve continue to flatten.

- Since first quarter 2004, NIMs for Illinois-based community banks have been increasing more than NIMs of larger institutions (over $1 billion). Smaller banks have been more able to increase yields on earning assets. In addition, large bank funding has responded more quickly to short-term rate increases than smaller banks.

Credit quality continues to be favorable.

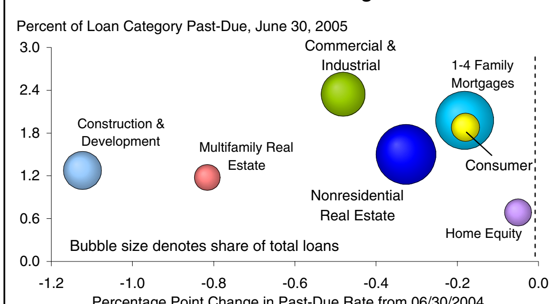
- Credit quality remained stable as delinquency ratios improved across all major loan categories (see Chart 4). Construction and development loans and multifamily real estate loans saw the greatest improvement in delinquencies since second quarter 2004. However, increasing use of adjustable rate mortgages and other hybrid loan products could leave some highly leveraged borrowers vulnerable to higher mortgage payments if interest rates increase. Consequently, institutions with high exposures in residential lending may find themselves with heightened levels of credit risk.

Table 1: Higher Net Margin Boosts Profitability

Income statement contribution (percent of average assets)	3 months ended June 30		Percentage Point Change
	2004	2005	
Net Interest Income	3.39	3.52	0.13
Noninterest Income	0.77	0.74	-0.03
Noninterest Expense	-2.63	-2.64	-0.01
Provision Expense	-0.24	-0.13	0.11
Security Gains & Losses	0.02	0.02	0.00
Pretax Net Income	1.31	1.51	0.20
Income Taxes	-0.29	-0.33	-0.04
Net Income (ROA)	1.02	1.18	0.16

Source: FDIC. Merger-adjusted data for Illinois' Community Institutions

Chart 4: Delinquency Rates Continue to Improve Across All Loan Categories



Source: FDIC. Merger-adjusted data for Illinois' Community Institutions

[1] Community institutions are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.
reported stable performance.

Illinois at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.6%	0.6%	-0.1%	-0.1%	-1.2%
Manufacturing (12%)	-0.8%	-0.2%	-3.0%	-2.4%	-5.3%
Other (non-manufacturing) Goods-Producing (5%)	-0.3%	-0.3%	-2.4%	-2.9%	-1.0%
Private Service-Producing (69%)	1.1%	1.1%	1.0%	0.8%	-0.6%
Government (14%)	-0.3%	-0.5%	-1.8%	-1.1%	-0.9%
Unemployment Rate (% of labor force)	5.9	5.7	6.2	6.2	6.7

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	4.9%	3.5%	4.4%	3.3%	3.2%
Single-Family Home Permits	9.1%	-3.5%	1.3%	4.1%	3.9%
Multifamily Building Permits	38.7%	46.9%	-31.6%	-17.2%	10.4%
Existing Home Sales	1.8%	2.9%	14.9%	11.8%	2.3%
Home Price Index	9.8%	9.8%	8.2%	8.7%	5.3%
Bankruptcy Filings per 1000 people (quarterly annualized level)	7.46	6.48	6.27	6.34	7.05

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	717	744	760	746	769
Total Assets (in millions)	357,270	351,722	573,226	340,634	575,362
New Institutions (# < 3 years)	13	10	8	8	8
Subchapter S Institutions	203	199	192	190	184

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.49	1.62	1.61	1.63	1.78
ALLL/Total Loans (median %)	1.11	1.12	1.15	1.11	1.15
ALLL/Noncurrent Loans (median multiple)	1.75	1.74	1.59	1.68	1.54
Net Loan Losses / Total Loans (median %)	0.01	0.00	0.02	0.09	0.10

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.42	9.18	9.10	9.13	8.92
Return on Assets (median %)	1.01	0.95	0.97	0.96	0.97
Pretax Return on Assets (median %)	1.30	1.24	1.26	1.25	1.25
Net Interest Margin (median %)	3.76	3.69	3.69	3.71	3.67
Yield on Earning Assets (median %)	5.67	5.44	5.23	5.33	5.57
Cost of Funding Earning Assets (median %)	1.90	1.73	1.58	1.62	1.92
Provisions to Avg. Assets (median %)	0.06	0.06	0.07	0.09	0.12
Noninterest Income to Avg. Assets (median %)	0.50	0.47	0.51	0.52	0.58
Overhead to Avg. Assets (median %)	2.61	2.59	2.56	2.60	2.63

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	62.6	61.7	61.4	61.8	59.7
Noncore Funding to Assets (median %)	17.6	17.0	16.0	16.6	16.1
Long-term Assets to Assets (median %, call filers)	12.7	13.6	15.5	13.9	15.3
Brokered Deposits (number of institutions)	227	225	196	214	186
Brokered Deposits to Assets (median % for those above)	4.4	4.1	4.0	4.2	4.0

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	64.0	63.3	64.8	63.3	64.0
Commercial Real Estate	148.0	152.7	140.1	146.1	136.7
Construction & Development	17.9	18.0	16.8	18.9	15.5
Multifamily Residential Real Estate	7.6	8.2	7.1	7.5	6.4
Nonresidential Real Estate	106.7	106.9	100.4	104.1	94.2
Residential Real Estate	174.5	183.2	184.1	187.4	184.0
Consumer	31.6	33.1	36.7	34.4	40.2
Agriculture	44.1	34.6	35.5	36.2	38.2

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Chicago-Naperville-Joliet, IL-IN-WI	338	220,508	< $250 million	545 (76%)
Bloomington-Normal, IL	26	7,994	$250 million to $1 billion	138 (19.2%)
Davenport-Moline-Rock Island, IA-IL	46	5,440	$1 billion to $10 billion	29 (4%)
Rockford, IL	23	5,177	> $10 billion	5 (0.7%)
Peoria, IL	46	5,173		